

**OIL AND GAS LEASE - Paid Up**

AGREEMENT, made and entered into this 17 day of December, A.D. 2007 by and between Michael Scardino and Lorraine Scardino, husband and wife, as tenants by entirety, 7611 Rt 97 Narrowsburg, New York, hereinafter called LESSOR, and NORNEW, INC., a New York Corporation, 1412 Sweet Home Road, Suite 12, Amherst, New York 14228 hereinafter called LESSEE:

**WITNESSETH**, that LESSOR, for and in consideration of the covenants and agreements herein contained on the part of LESSEE, to be paid, kept and performed, the receipt and sufficiency of which is hereby acknowledged, has granted, demised, leased and let, and by these presents does grant, demise, lease and let unto LESSEE, its successors and assigns for its exclusive use and possession, for the purposes of (1) mining, exploring for (including geophysical exploration activities), producing, treating, drilling for and operating for oil and gas, (2) storing gas in any underlying strata of the premises and withdrawing therefrom gas whether or not originally produced from other lands, and (3) constructing, operating, using, maintaining and removing on or from the premises wells, pipelines, tanks, stations, roads, cathodic protection devices, water (except from LESSOR's wells), oil and gas necessary for construction and operations, and other supplies, devices, structures, equipment and facilities that are now or may in the future be necessary for or convenient in producing, withdrawing, storing and transporting oil and gas across and through said lands from the subject and other lands the above named products by pipelines or otherwise, all that tract or parcel of land situated in the Town of Georgetown County of Madison and State of New York, bounded substantially as follows:

On the North by: 194.19-1-53 194-1-7  
 On the East by: Route 26 and 80 209-1-15.1  
 On the South by: 209-1-13.1  
 On the West by: 209-1-13.1 194-1-6.11  
 Deed Book & Page (for ref. Only) 1343 p 12 Tax ID No. (For ref. Only) 209-1 Lot 15.3 Twn. \_\_\_\_\_ Rge. \_\_\_\_\_

containing for the purpose of calculating rentals and royalties, 57.02 acres whether actually containing more or less. In addition to the above described land, any and all strings or parcels of land adjoining or contiguous to the above described land and owned or claimed by LESSOR are hereby leased to LESSEE. All tracts or parcels of land leased to LESSEE herein, including strata and horizons underneath the surface thereof, are herein referred to as "the premises."

For purposes of this Lease, oil and gas includes all hydrocarbons and other substances produced or associated therewith.

It is agreed that this Lease shall remain in full force and effect until midnight on the 5<sup>th</sup> anniversary of the date hereof (the primary term) and as long thereafter as (1) drilling operations continue with due diligence, provided that LESSEE has commenced drilling operations on any portion of the premises or any lands pooled or unitized therewith, within the primary term, (2) an application for a drilling permit is pending with the appropriate authorities, and LESSEE, after grant of such permit, commences drilling operations within a reasonable time thereafter and continues same with due diligence, provided said permit application was filed prior to the expiration of the primary term, (3) oil and gas or either of them is produced or withdrawn from any portion of the premises or any lands pooled or unitized therewith, (4) gas storage operations are conducted in or on any portion of the premises, or (5) a completed oil or gas well would be capable of producing oil or gas from any portion of the premises or any lands pooled or unitized therewith, but for acts of God, unavailability or interruption of markets or pipelines, or any other causes, which have caused LESSEE not to commence production from such well or to suspend production from such well. If this lease is not being otherwise extended pursuant to the provisions hereof, Lessee is hereby given the option to extend the primary term of this lease, as to all or any portion of the premises, for an additional 10 years from the expiration of the primary term. This option may be exercised by Lessee, at Lessee's sole discretion, at any time during the last year of the primary term by paying or tendering to Lessor, it heirs, successors or assigns (subject to the provisions of this lease regarding changes in ownership) the sum of \$ N/A per net mineral acre for the portion of the lease to be so extended. Additionally, Lessee shall, within thirty (30) days of such payment or tender, record an instrument providing notice of the extension of the lease and the description of the portion of the premises covered by such extension. This is a paid up lease requiring no rental either during the primary term or the extended term.

**IN CONSIDERATION OF THE PREMISES:****A. The LESSEE covenants and agrees as follows:**

1st-To pay to LESSOR a royalty of one-eighth (1/8) of eight-eighths (8/8) of the gross proceeds (less all reserved gas used in accordance with paragraph C.5th hereinafter, and less all applicable excise taxes, including production, severance and windfall profits taxes, (if any) realized from the sale of gas produced or withdrawn from those strata or horizons of the premises not used for storage of gas, and from the sale of oil produced or withdrawn from the premises which gas and oil is sold and used off the premises. In the event all wells on the leased property, or, where applicable, all wells on property pooled with the leased property, are shut-in for any reason for a continuous period of twelve months, including, without limitation, inability to obtain a satisfactory market for production or failure of transportation for such production, then on or before the end of the calendar year during which such twelve month period is concluded and each anniversary thereafter if the wells are continuously shut-in, Lessee shall pay Lessor a shut-in payment of One Dollar per year per acre then covered by this lease, and this lease shall continue in full force and effect, as if oil, gas and/or other hydrocarbons were being produced from such wells. For the purpose of calculating shut-in royalties which are paid on a per acre basis, the number of lease acres described in Paragraph 1 shall be deemed correct, whether actually more or less. The consideration, lease bonus or royalties paid and to be paid, as provided in this lease, are and will be accepted by the Lessor as adequate and full consideration for all the rights granted to the Lessee and the further right of drilling or not drilling on the leased premises, whether to offset producing wells on adjacent or adjoining lands or otherwise, as the Lessee may elect.

2nd-To pay to LESSOR an annual storage rental of \$ \_\_\_\_\_ per acre for the utilization of one or more strata in the premises for storage operations, for so long as any stratum is so utilized, and to give to LESSOR written notice of the use of the premises for storage operations; and it is agreed that said storage rental is in lieu of delay rental and royalty payments, except that storage rental and royalty payments shall be paid simultaneously by LESSEE if LESSEE simultaneously conducts storage operations in one or more strata in the premises and produces oil or gas from one or more other strata, and it is further agreed that the termination of gas storage operations shall be a full liquidation of all storage rental during the remainder of the term of this Lease.

3rd-To correct any damages LESSEE may cause to crops, fences or structures as a result of its operations, and to restore, as near as possible, all surface used by LESSEE to its condition existing prior to drilling, or, at LESSEE's option, to pay to LESSOR reasonable damages, provided that LESSEE has received written notice from LESSOR specifying the damages.

4th-To drill no well within two hundred (200) feet of any dwelling or barn now on the premises without the written consent of the LESSOR.

**B. The LESSOR covenants and agrees as follows:**

1st-To erect no dwelling or barn within two hundred (200) feet of any producing well drilled on the premises or any acreage pooled or unitized therewith, or within fifty (50) feet of any pipeline, without the written consent of the LESSEE.

2nd-That LESSOR has full title to the premises and to all the oil and gas therein at the time of granting this lease, and forever warrants title to the leasehold estate hereby conveyed to LESSEE, that LESSEE shall have exclusive, full and quiet possession of the premises for the purposes set forth herein, and that LESSOR shall not interfere in the operations of LESSEE hereunder.

**C. It is mutually agreed by and between LESSOR and LESSEE as follows:**

1st-LESSEE shall have the right at any time to redeem for LESSOR, or otherwise acquire for payment, any mortgage or any other liens or encumbrances upon the premises that may in any manner affect the LESSEE's interest therein, and LESSEE shall be subrogated in full to all the rights of the holder thereof the same as if LESSEE were the original owner of said mortgage, lien or encumbrance, and LESSEE may reimburse itself by applying to the discharge of any such mortgage, lien or other encumbrance any royalty or rental owed or accruing hereunder.

2nd-LESSEE shall have the exclusive right to employ all or any of the oil or gas strata in the premises for the storage of gas, and may reopen and reclaim any and all abandoned wells on the premises that may have penetrated said strata, or drill new wells on the premises, for the purpose of freely introducing and storing gas in such strata and recovering gas therefrom. A well need not be drilled, reopened or reclaimed on the premises in

order for gas to be stored in the premises. LESSEE shall be the sole judge as to whether gas is being stored in the premises, and its determination shall be final and conclusive. Storage of gas hereunder shall not diminish any of LESSEE's other rights under this Lease.

3rd-If LESSOR is found to own less than the entire fee simple estate, then the royalties and rents provided for herein shall be paid to the LESSOR only in the proportion which such interest bears to the whole and undivided fee interest. If LESSEE makes rental or royalty payments to LESSOR in excess of LESSOR's entitlement thereto, LESSOR shall refund to LESSEE such part of all such payments made by LESSEE under this Lease as shall be proportionate to the title not held by LESSOR, and LESSEE may reduce subsequent payments in the same proportion. If LESSOR does not timely provide such refund, LESSEE may also reduce payments to LESSOR by the amount that should have been refunded.

4th-In case of a conveyance or reservation of all or a part of or an undivided interest in the premises, LESSEE shall apportion all entitlements or benefits under the Lease according to interest, acreage, or the terms of the conveyance as the case may be (except as provided in 5th hereof). Notwithstanding the above, LESSEE may continue to pay or provide all such entitlements or benefits to LESSOR, until furnished with the original or a certified copy of the deed of conveyance or other documents or proof of conveyance, so that LESSEE may identify the land or interest conveyed as being all or part of the premises. In case of notice of an adverse claim to the premises or any portion thereof or interest therein, whether or not in connection with a conveyance, LESSEE may withhold any or all entitlements or benefits under this lease until such claims, and the entitlements and benefits, are in LESSEE's sole discretion, decided by compromise, or by final decree of a court of competent jurisdiction, and to this end LESSEE may file a petition for interpleader.

5th-LESSOR hereby excepts and reserves from any one gas-producing well on the premises completed and operated by LESSEE (excepting wells utilized for storage), for so long as gas is produced from such well, such quantity of gas as LESSOR requires for his own domestic use in only one dwelling located on the premises, but not exceeding two hundred thousand (200,000) cubic feet of gas per year. LESSOR may, at LESSOR's sole cost, risk and expense and upon such terms, conditions and rules as LESSEE may establish, secure such reserved gas by a service line laid and connected to such well. LESSOR shall use said reserved gas in safe and proper pipes and appliances, assumes the risk for obtaining reserved gas from such well, agrees that LESSEE shall have the right to abandon such well at any time, and agrees the LESSEE shall not be in any way liable for interruption of or insufficient supply of such reserved gas. LESSEE shall have no obligation to furnish LESSOR with gas in excess of the quantity reserved. Nevertheless, if LESSOR in any year consumes gas in excess of the quantity reserved hereunder, LESSEE, at its election, may deduct the value thereof from rentals, royalties or other payments due LESSOR, or LESSEE may bill LESSOR the value thereof, in which case LESSOR shall pay said bill promptly. In the event such bill is not paid within 30 days of receipt, LESSEE shall at its sole discretion discontinue supplying reserved gas until such amounts have been recouped. For purposes of this paragraph, the value of such excess consumption shall be derived by using a price deemed appropriate by LESSEE, which shall in no event be greater than the price charged by a local gas distribution company deemed appropriate by LESSEE. If LESSOR conveys a portion of or interest in the premises, LESSOR may convey his entitlement to reserved gas hereunder as party of such conveyance, but may not subdivide such entitlement. If the premises are pooled or unitized with other lands the reserved gas herein referred to shall be used only by the LESSOR upon whose property the well is located.

6th-LESSEE shall at any time, upon payment of all monies due hereunder up to such time, have the right to surrender this Lease as to all or part of the premises, and shall thereupon be released and discharged from all payments, obligations, terms, conditions and covenants contained herein, whereupon this Lease shall be null and void as to the entire premises or the part thereof as to which this surrender was made, and rental and royalty payments shall cease or be reduced accordingly.

7th-LESSEE is hereby granted the right to pool or unitize all or any part of the premises with any other leases, lands, mineral estates, or any of them whether owned by the LESSEE or others, so as to create one or more drilling or production units. Such units shall not exceed 640 acres in extent. LESSEE shall record a copy of the unit operation designation in the county in which the premises are located and mail a copy thereof to LESSOR. In order to give effect to the known limits of the oil and gas pool, as such limits may be determined from available geological or scientific information or drilling operations, LESSEE may at any time increase or decrease that portion of the premises that is included in any drilling or production unit, or exclude it altogether, provided that written notice thereof shall be given to LESSOR. As to each such unit, LESSOR agrees to accept, in lieu of the royalty herein described, such proportion of such royalty as the acreage in the premises in such unit bears to the total acreage included in such unit. The commencement, drilling, completion or production from a well on any portion of a unit including all or some of the premises shall have the same effect upon the term of this Lease as if a well were commenced, drilled, completed or producing on the premises.

8th-All expressed or implied covenants of this Lease shall be subject to all federal, state and local laws, orders, rules and regulation. If LESSEE is unable to fulfill any covenant hereunder because of such laws, orders, rules or regulations, acts of God (such as natural disasters), wars, civil disturbances, insurrections, riots, epidemics, floods, fire, storm, strike, differences with workmen, equipment or pipeline breakdown or freeze-up, or as a result of any other cause whatsoever beyond the control of LESSEE, for such time as such situation exists, the term of this Lease shall be extended for an equal period of time, and LESSEE's obligation to fulfill its covenants under this Lease shall be suspended for such period of time.

9th-This Lease may be executed in counterparts each having the same validity as the original. Should any one or more of the parties named as LESSOR or owning a mineral interest in the premises fail to execute this Lease, it nevertheless shall be binding upon all such parties who do execute it as LESSOR.

10th-LESSEE shall have the right to assign this Lease or any interest therein, and the assignee of LESSEE shall have corresponding rights, privileges and obligations with respect thereto. All terms, conditions and covenants between the parties hereto shall extend to their respective heirs, successors, personal representatives and assigns. If LESSEE assigns this Lease or any interest therein, LESSOR will look solely to assignee for fulfillment of all obligations of the Lease or of the interest assigned, as the case may be. Representations other than those contained herein shall not be binding on either party.

11th-LESSEE's exercise of any right or entitlement granted under this Lease shall continue this Lease in full force and effect as to all rights and entitlements granted herein, and each right and entitlement granted herein may be exercised by LESSEE simultaneously with its exercise of one or more other rights and entitlements or singly, on a continuing basis. It is agreed that this lease shall not be forfeited or canceled for failure to perform in whole or in part any of its expressed or implied covenants, conditions, or stipulations until it shall have first been finally judicially determined that such failure exists, and after such final determination, the LESSEE is given a reasonable time therefrom to comply with any such covenants, conditions or stipulations.

*See addendum*

The following applies only in the State of New York:

IF THIS LEASE BECOMES FORFEITED, TERMINATED OR EXPIRES, THE LESSEE, OR IF THE LEASE HAS BEEN ASSIGNED, THE ASSIGNEE IS REQUIRED TO PROVIDE A DOCUMENT CANCELING THE LEASE AS OF RECORD, AT NO COST TO THE CURRENT LANDOWNER. IF THE LESSEE OR ASSIGNEE FAILS TO CANCEL THE LEASE, THE CURRENT LANDOWNER MAY COMPILE A CANCELLATION PURSUANT TO SECTION 15-304 OF THE GENERAL OBLIGATIONS LAW.

THIS IS A LEASE OF OIL AND GAS RIGHTS, NOT A SALE, CONTAINING TERMS THAT MAY BE NEGOTIATED BY YOU. YOU HAVE THE RIGHT TO CANCEL THIS LEASE WITHIN THREE BUSINESS DAYS AFTER EXECUTION OF THE LEASE BY NOTIFYING THE LESSEE THAT YOU HAVE CANCELLED THIS CONTRACT. IN ORDER TO CANCEL THIS LEASE, YOU MUST EXECUTE A NOTICE OF CANCELLATION IN THE FORM PROVIDED BELOW:

#### NOTICE OF CANCELLATION

I/WE HEREBY CANCEL THIS LEASE. DATED: \_\_\_\_\_

SIGNATURE(S): \_\_\_\_\_

MAIL IT TO THE LESSEE AND REFUND ALL AMOUNTS PAID TO YOU BY THE LESSEE WITHIN THE THREE DAY CANCELLATION PERIOD. THE MAILING MUST BE POSTMARKED WITHIN THE THREE DAY CANCELLATION PERIOD TO BE EFFECTIVE.

The person presenting this lease to you is ( ) is not (X) a member of NALM and therefore is subject to a code of conduct. If the person presenting this lease to you is subject to a code of conduct, a copy of the code of conduct must be presented to you with this lease. If applicable, the code of conduct provides a dispute resolution mechanism for any dispute that you may have regarding the manner by which the lease was presented to you. If you have any such dispute, you may invoke the dispute resolution mechanism of the code of conduct by contacting the person or persons designated in the code of conduct. Failure of the Lessee to pay any royalties to you as required under the terms of the lease for a period of four consecutive months or more shall be a default unless otherwise provided by law, and will result in cancellation of the lease applicable to the target formation of the well within the spacing unit, following written notification to the Lessee of your intent to cancel and sixty days for the Lessee to cure the default. If the Lessee has a bona fide dispute regarding the grounds for cancellation, such dispute and the reasons therefore must be provided to you in writing or the default must be cured within such sixty day period. Otherwise the lease shall be cancelled.

IN WITNESS WHEREOF, the instrument is executed on the date first above written.

WITNESSES:

[Signature] (SEAL)  
Florraine Scardine (SEAL)

[Signature] (SEAL)  
[Signature] (SEAL)

By: [Signature]  
THE Land Manager  
HORNEW, INC.

### CERTIFICATE OF SUBSCRIBING WITNESS

STATE OF New York §  
COUNTY OF Sullivan §

On the 17th day of December, in the year 2007, before me, the undersigned, a Notary Public in and for said State, personally appeared Michael & Florraine Scardine, the subscribing witness to the foregoing instrument, with whom I am personally acquainted, who being by me duly sworn, did depose and say that he resides in 7611 Rt 97 Narrowsburg NY that he knows \_\_\_\_\_ to be the individual(s) described in and who executed the foregoing instrument, that said subscribing witness was present and saw said \_\_\_\_\_ execute the same; and that said witness at the same time subscribed his name as a witness thereto.

[Signature]  
Notary Public

KAREN SAYERS  
Notary Public, State of New York  
Qualified in Sullivan County  
My Commission Expires 11/30/09

### ACKNOWLEDGMENT OF CONVEYANCE

State of New York )  
County of Sullivan ) ss.:

On the 17th day of December in the year 2007 before me, the undersigned personally appeared Michael & Florraine Scardine, personally known to me or proved to me on the basis of satisfactory evidence to be the individual(s) whose name(s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies), and that by his/her/their signature(s) on the instrument, the individual(s), or the person upon behalf of which the individual(s) acted, executed the instrument, and that such individual made such appearance before the undersigned.

[Signature]  
Notary Public

KAREN SAYERS  
Notary Public, State of New York  
Qualified in Sullivan County  
My Commission Expires 11/30/09

## ACKNOWLEDGMENT

State of New York           )  
  ) ss.:  
County of Chautauqua       )

On the 4th day of January in the year 2008 before me, the undersigned, a Notary Public in and for said State, personally appeared Dennis Lutes, Land Manager personally known to me or proved to me on the basis of satisfactory evidence to be the individual whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his capacity, and that by his signature on the instrument, the individual, or the person upon behalf of which the individual acted, executed the instrument.

CATHERINE J. ELLIS  
NOTARY PUBLIC STATE OF NEW YORK  
COMMISSION #010103034103  
QUALIFIED IN CHAUTAUQUA COUNTY  
MY COMMISSION EXPIRES 12-1-09

Catherine J. Ellis  
Notary Public

ADDENDUM TO OIL AND GAS LEASE

BY AND BETWEEN

NORNEW, INC.

AND

Michael Scardino and Lorraine Scardino

1. Lessor reserves the right to approve the drill site(s), ingress and egress routes, surface equipment site and pipeline routes chosen by Lessee, but said approval shall not be unreasonably withheld.

Attached to and made a part of the Oil and Gas Lease by and between Nornew, Inc. and Michael Scardino and Lorraine Scardino dated the 17 day of December, 2007.